

MINUTES

MONTANA HOUSE OF REPRESENTATIVES
51st LEGISLATURE - REGULAR SESSION

COMMITTEE ON STATE ADMINISTRATION

Call to Order: By Chairman Jan Brown, on January 25, 1989,
at 9:00 a.m.

ROLL CALL

Members Present: All

Members Excused: None

Members Absent: None

Staff Present: Judy Burggraff, Secretary; Lois Menzies,
Staff Researcher

Announcements/Discussion: None

HEARING ON HB 219

Presentation and Opening Statement by Sponsor: Rep. Hal Harper, House District 44 in Helena, introduced the bill. This bill is an agency bill requested by the Department of Justice. It clarifies funding for the state's contribution to the Highway Patrolmen's Retirement System, which amounts to 26.75% of the salaries paid to highway patrol officers. The bill provides that the state contribution comes from two sources: (1) an amount equal to 16.57% of salaries is payable from the same source that is used to pay compensation to the member and (2) an amount equal to 10.18% of salaries is payable from a portion of the driver's license fees. The driver's license fees must first be deposited into an account in the state special revenue fund; they are then transferred to the highway patrolmen's retirement pension trust fund. The driver's license fees are statutorily appropriated.

List of Testifying Proponents and What Group They Represent:

Terry Cannon, Assistant Administrator, Central Service
Division of the Department of Justice

List of Testifying Opponents and What Group They Represent:

None

Testimony:

TERRY CANNON, proponent, said that HB 219 is best described as another housekeeping bill. In 1985 a law was passed to make 1/3rd of the driver's license fee go directly to the Highway Patrol Retirement System in order to help the "under funded" fund. For the last three years, the fee has been deposited in the System account. The Legislative Auditor would prefer that it make a stop in a special revenue fund in order to have a retirement contribution expense posted in the state books. There is also some confusing language in the bill that has been cleaned up, and the bill also specifies precisely the percentages between what is supposed to come from the regular paycheck and what is supposed to come from 1/3rd of the driver's license fee.

Questions From Committee Members:

None

Closing by Sponsor: None

DISPOSITION OF HB 219

Motion: Rep. Nelson moved HB 219 DO PASS.Discussion: NoneAmendments and Votes: NoneRecommendation and Vote: The motion CARRIED unanimously.

HEARING ON HB 234

Presentation and Opening Statement by Sponsor: Rep. Gary Spaeth, House District 84, introduced the bill. He said that basically the bill changes the formula for calculating retirement benefits under the Public Employees' Retirement System (PERS). The bill would improve everyone's retirement benefit by about 9.2 %. The reason this bill is important right now is that the employees that are going to retire within the next two years will have their benefits affected by the two-year

wage freeze.

Currently, the formula used to calculate the retirement allowance for a member of the PERS is one-sixtieth of the member's final compensation multiplied by his number of years of creditable service. This bill revises the PERS formula to provide that a member's allowance is equal to one fifty-sixth of his final compensation multiplied by his number of years of creditable service. To fund this benefit enhancement, both the member's and employer's contribution rates will increase. The member's rate will increase incrementally each year until it reaches 6.70% of his compensation on July 1, 1993. (Currently the member's contribution rate is 6%) The employer's contribution rate remains at 6.417% of compensation until June 30, 1992. It increases in both fiscal years 1992 and 1993 until it reaches 6.70% on July 1, 1993.

List of Testifying Proponents and What Group They Represent:

Tom Schneider, Executive Director, Montana Public Employees Association

Dave Milot, member, Montana Public Employees Association

Terry Minow, Montana Federation of Teachers and Montana Federation of State Employees

Phil Campbell, Montana Education Association

Dennis Hemmer, representing a group of nonaligned state employees

Nadian Jensen, Executive Director, American Federation of State and County Municipal Employees AFL/CIO

Mervin Gunderson, a public employee

Patty Gunderson, state employee at Montana State University

Rep. Vicki Cocchiarella, University of Montana PERS employees and other employees in Missoula

Carol Barklay, Montana State University, representing a few of the older employees at the university

Larry Nachtsheim, Administrator, Public Employees' Retirement Division, neither a proponent nor opponent

List of Testifying Opponents and What Group They Represent:

Shelly Laine, City of Helena

David Ashley, Acting Director, Department of
Administration

Testimony:

TOM SCHNEIDER, proponent, presented written testimony (Exhibit 1) and a Comparison of Funding Levels and Years to Full Funding chart (Exhibit 2), that cover both HB 234 and HB 235. He said that the bills really were put together as a package because the Montana Public Employees Association is looking for a different method of addressing the problems than they have been trying to cover since 1985.

DAVE MILOT, proponent, said that Montana Public Association (MPEA) said that HB 234 and HB 235 go hand-in-hand in creating a fair and equitable method for providing early retirement for public employees. He said that the bill would provide a badly needed boost to employee morale and will assist the present administration in meeting its goal of reducing full-time employees through attrition. He said the MPEA believes that the cost to the state for the reduction in the formula is very minimal when compared to the savings realized when the employees retire. He pointed out that of the eligible members that he has talked to, a majority of them plan to retire when both of these bills become effective.

TERRY MINOW, proponent, said that Tom Schneider did an excellent job of describing what HB 234 and HB 235 will accomplish. She said that although this is a different approach from last session, it is an issue that is near and dear to the hearts of public employees. Ms. Minow said that public employees have suffered as a result of the budget deficit. The employees' morale is low, wages, in terms of buying power have declined, and the demand for services is being met by fewer public employees. She said that the passing of the two bills would be a shot in the arm to the public employees who provide necessary services.

PHIL CAMPBELL, proponent, said that on behalf of the school employees who he represents who participate in the Public Employees' Retirement System, we want to go on record as supporting HB 234 and HB 235. Mr. Campbell said the group thinks it is an excellent way to provide

benefits and it is long overdue.

DENNIS HEMMER, proponent, presented written testimony (Exhibit 3).

NADIAN JENSEN, proponent, said that the AFL/CIO represents employees in all phases of public employment except for police officers and sheriffs' deputies. She urged the Committee to support both HB 234 and HB 235. Ms. Jensen said that the employees are willing to increase their contribution towards their PERS, and it is a larger contribution than what the state will have to put in.

MERVIN GUNDERSON, proponent, a public employee, said that both HB 234 and HB 235 are very much sought after by the public employees of the system. Mr. Gunderson said that some members that came to work years ago came with the idea of being faithful employees for the state of Montana. He said he was born, raised and has stayed here and has no inclination of leaving. He said that his wages have been frozen for the last three years. Mr. Gunderson reiterated what had been said in previous testimony.

REP. VICKI COCCHIARELLA, proponent, stated three things that the package would provide: (1) it sends a message to state employees that they are worthwhile and their work is appreciated in the state; (2) it reduces state government in a way that will save the state money as it provides an incentive to those who are near retirement for retiring with a brighter picture; (3) the cost is shared by employees; and by the end of the fifth year, the contribution by employee and employer will be the same.

CAROL BARKLEY, proponent, presented written testimony (Exhibit 4).

LARRY NACHTSHEIM, said he was neither a proponent or an opponent but noted that HB 234 is fully funded. Mr. Nachtsheim said that the Public Employees Retirement Board refers to the judgment of the Legislature because it involves a benefit attachment. The Board does not oppose the bill as it is written.

SHELLY LAINE, opponent, said that the city of Helena opposes HB 234. Ms. Laine said that although it wouldn't be effective until July, 1992, it would obviously add to the cost of local government. She said that at present salary levels, the jump from 6.417% to 6.55% of salaries would cost the city general fund in excess of \$4,300 annually. The second jump to 6.7% would cost

the city general fund in excess of \$4,900, for a total of over \$9,200 per year. Ms. Laine said that if all other funds are considered, the effect would be nearly twice as much. Ms. Laine said that these increased costs cannot be absorbed.

DAVID ASHLEY, opponent, presented written testimony (Exhibit 5).

Questions From Committee Members:

REP. COCCHIARELLA asked Mr. Nachtsheim how much money there is in PERS and if there was any unfunded liability. Mr. Nachtsheim said that as of July 1, 1988, there was \$639 million. And the unfunded liability in the PERS fund was \$298 million. He said that when the actuary "costed" the bill, he calculated what it would cost over 40 years to fund this benefit, and his number was 0.98 percent of salary. With the amortization rate accelerated because of good investments, he believed that it would take less than 40 years to fund this benefit.

REP. COCCHIARELLA asked Mr. Ashley if his calculations, included figures for people who might retire. Mr. Ashley said they did not, but that if this bill results in people retiring in the coming biennium who would not have otherwise retired, it would result in their getting a "cash out" for their sick leave and vacation pay, which is taxable income. Mr. Ashley said that may offset the \$110,000 reduction in income tax the state would receive. REP. COCCHIARELLA asked if there are any reductions in his figures based on people with high salaries retiring and lower salaried people being hired. Mr. Ashley said there are some savings as a result of that happening, but he said that typically what agencies experience is that when the older, higher paid employee retires the state has to pay the vacation and sick leave that has accrued and this is typically \$6,000 to \$7,000. So this is a cost that offsets the lower cost of the incoming employee.

Closing by Sponsor: Rep. Spaeth said that he thought the bill had received a good hearing and that most of the issues are in documents that have been presented to the Committee. Rep. Spaeth said that there is some work ahead for the Committee to sort out the figures and the actuarial soundness. Rep. Spaeth said that he thinks that the Committee will find that it is a good bill and will benefit not only state employees but the state of Montana.

DISPOSITION OF HB 234

No executive action was taken.

HEARING ON HB 235

Presentation and Opening Statement by Sponsor: Rep. Gary Spaeth, House District 84, introduced the bill. This bill permits a person who became a PERS member before July 1, 1989, and who has five or more years of membership service to purchase one year of additional service for each five years of membership service that he or she has qualified for under the retirement system. The member must pay the entire cost for purchasing the additional years of service. The additional service purchased is used in calculating the member's service allowance but may not be used to qualify the member for service retirement. Rep. Spaeth said that this bill is entirely different from the bill that was carried last session. He said that the 1987 bill received a do pass from both the House and the Senate, but that the bill was vetoed by the Governor. Rep. Spaeth said that HB 235 allows the 239 people that could take advantage of the bill to pay for the cost of the bill. He said that the early retirement penalty would be removed, and a person with 25 years who buys 5 years of service will retire at 50% of average salary. Rep. Spaeth said that his only complaint with the bill is that it does not go far enough.

List of Testifying Proponents and What Group They Represent:

Tom Schneider, Executive Director, Montana Public Employees Association

Larry Nachtsheim, Administrator, Public Employees' Retirement Division

Dave Milot, member, Montana Public Employees' Retirement System

Terry Minow, Montana Federation of Teachers and Montana Federation of State Employees

Phil Campbell, Montana Education Association

Dennis Hemmer, representing a group of nonaligned state employees

Nadian Jensen, Executive Director, American Federation

of State, County and Municipal Employees, AFL/CIO
Mervin Gunderson, a public employee

Rep. Vicki Cocchiarella, University of Montana PERS
employees and other employees in Missoula

Carol Barklay, Montana State University for a few of
the older employees there

Patty Gunderson, employee, Montana State University

List of Testifying Opponents and What Group They Represent:

Rich Brown, Administrator, Veterans' Affairs Division,
Department of Military Affairs

Dennis Hemmer presented written testimony to the
committee, (Exhibit 6) but did not testify.

Testimony:

TOM SCHNEIDER, proponent, presented written testimony to the
committee (Exhibit 1).

LARRY NACHTSHEIM, proponent, said that the Public Employees'
Retirement Division has worked about six months putting
out the bill and they do support it.

PATTY GUNDERSON, proponent, said that both she and her
husband are state employees and her husband has worked
for the state longer than she has. They wish to retire
at the same time. She said that with the present
retirement system, she would have to take a 30% penalty
to retire when her husband does.

LORRAINE GUNDERSON, proponent, said that she is a Montana
State University (MSU) employee and will have been
employed there for 25 years as of October, 1988. She
said that her husband, Bob, recently retired December
31, 1988, with 20 years of service at MSU. Ms.
Gunderson said her husband is 60 years old, which
entitled him to retire with no penalty. She said that
she would also like to retire with her husband, but
that under the present retirement laws she would have
to take a 30% retirement penalty even though she has
put in five more years than Bob has and will have to
work another five years before she can benefit
financially. She said that HB 235 would give her the
opportunity to buy the remaining five years and retire
with no penalty and have a decent amount of retirement
paid each month.

RICH BROWN, opponent, said that he had received numerous calls in opposition to the bill from veterans across the state of Montana that are state employees. Mr. Brown said that the veterans do not object that one may retire earlier and may buy five years of service for no service rendered. They do object to the fact that military service will now be considered the same as no service under the state of Montana law. Mr. Brown said that a veteran can buy five years for no service or one can buy the military service. Military service has been equated to no service at all under the PERS.

Questions From Committee Members:

REP. PHILLIPS asked Mr. Nachtsheim what the cost of the bill will be. Mr. Nachtsheim said the cost is borne by the individual and there is no cost to the state.

REP. COCCHIARELLA asked Mr. Schneider to explain the veterans' problem. Mr. Schneider said that they had phone calls yesterday saying that the bill would take away veterans' service. Mr. Schneider said that the testimony caught him off guard; the bill does not water down military service. Veterans only pay 6 percent or just the employee contribution for military service starting with the tenth year of salary and not final salary. In addition, military service can be used to qualify a member for retirement. This bill is simply to deal with people who would like to retire without a penalty. Veterans' service counts exactly the same. It is bought cheaper and it counts more than any other form of service that you can have other than the service that you get by just working.

REP. PHILLIPS asked Tom Schneider about the October, 1989, date in which prior to that date you could combine and buy all of the services, but after that date you can only buy five years total. Mr. Schneider said you can have five years of military right now and after October 1, 1989, you can still have five years of military service. Mr. Schneider said that if a member was able to buy five years of military service and five years of service under this bill that after the cutoff date, it would cost 17 percent of salary to buy the five years provided in this bill because of the compounding factor. That is why the bill limits the total years you can have after October 1, 1989, so that people could afford to buy the years.

REP. GERVAIS asked Tom Schneider if after October 1, 1989, would a veteran be able to buy his five years and

could it be used immediately towards retirement and the other people wouldn't be able to. Mr. Schneider said that after October 1, 1989, a veteran can buy military service the same as he can today. The bill does not affect that. Mr. Schneider said if a member purchased five years under this bill, it goes towards calculating the benefit but not towards qualifying to receive the benefit.

REP. CAMPBELL asked Tom Schneider how many people he thought would take advantage of this bill. Mr. Schneider said that with the conditions the way they are in Montana now, that he thinks that all 339 people would buy back and leave the state.

REP. MOORE asked Mr. Schneider if that prior to October 1, 1989, would a person be eligible to buy more than five years, both military and federal time. Mr. Schneider said that until October 1, 1989, a person could, if they qualify, have five years of military, five years of out-of-state service and buy five years under the bill.

Closing by Sponsor: Rep. Spaeth said that he didn't think the military time is of any real concern. He said that all of the Legislators can be a part of PERS. Rep. Spaeth said that he has four years of military time, and he understands that he can buy those years in the military and then buy another year that he would not be able to buy if this bill didn't pass. He said the bill is a good one and he urged a do pass.

DISPOSITION OF HB 235

No executive action was taken on the bill.

DISPOSITION OF HB 128

Motion: Rep. O'Connell moved HB 128 DO PASS.

Discussion: None

Amendments and Votes: Rep. O'Connell moved the amendments.

Chairman Brown requested Lois Menzies to explain the amendment (Exhibit 7). Ms. Menzies said that the amendment provides that a fine imposed by the Board will be deposited in the Board's earmarked revenue account. That money can only be used for the Board's purposes. REP. PHILLIPS said there must have been some rethinking over at the Department of Commerce about

picking up some extra money to run the boards. He said that when the boards were established the Legislature was told that the members would pay to fund their boards; now they are trying to find another source of money. REP. PHILLIPS said he doesn't like the amendment, and he doesn't like the bill. REP. CAMPBELL said that at the rate of \$500 per fine, it wouldn't take long to pay the Boards' costs, and he wanted to know what they are going to do with the excess. REP. ROTH said that often the people on the boards are at odds with certain people within their membership, and he thinks the ability to fine will be used as a vendetta against those that do not go along with the Board. REP. ROTH said he thought they should revoke the doctor's license for a period of days rather than fine him as too few people can control whether a doctor is fined or not. REP. SQUIRES said that an imposition of a fine of \$500 is probably the least amount, and a good way to tell a doctor that you are looking at him. She thinks that imposing a fine is a good way to help protect the public.

REP. PHILLIPS made a substitute motion to have the fines deposited in the General Fund. REP. SQUIRES said that she understands that Boards are self-sustaining and dollars received are put in the earmarked revenue accounts. She said that the State Board of Nursing has a possibility of lawsuits and other costs that must be backed up financially in case the Board makes a mistake. She said she disagrees with the motion. Lois Menzies said that there are two other Boards that have the ability to fine, and both the Boards require the funds to go into the earmarked revenue account.

REP. WHALEN made a substitute motion to the substitute motion. He moved that the fine money be put into the earmarked revenue account; at the end of the year, any funds in that account would revert to the General Fund.

REP. PHILLIPS said that the problem with the Whalen amendment is that you would be taking their dues money also and putting it in the General Fund and that would not be right. Ms. Menzies said she thought that the amendment only asked for the fines to revert to the general fund, not the entire contents of the earmarked revenue account. REP. RUSSELL said she is concerned about the amendment because there are some new Boards that just got started a couple of years ago. She said it is very expensive to get the Boards together to hear complaints in Helena, and she thinks that the amendment would be punitive.

REP. WHALEN'S substitute motion on the substitute motion FAILED unanimously.

A vote was taken on REP. PHILLIPS' substitute motion to put the fines in the general fund rather than the earmarked revenue account. A roll call vote was taken. The motion FAILED by a vote of 8 to 10, with Reps. Brown, Cocchiarella, Davis, Gervais, Moore, Nelson, O'Connell, Russell, Squires and Westlake voting no.

REP. CAMPBELL asked what would happen if the amendment is not passed. Ms. Menzies said that if the bill passes, it is essential that the Committee has language in the bill saying where the funds should be deposited. It was an omission when the bill was drafted and should be cleaned up.

A vote was taken on REP. O'CONNELL'S motion to deposit fines in the earmarked revenue fund. The motion CARRIED with Reps. Roth, Whalen, Campbell, Phillips and Compton voting no.

Recommendation and Vote:

A vote was taken on REP. O'CONNELL'S DO PASS AS AMENDED motion. The motion CARRIED 10 to 8 with Reps. Campbell, Compton, DeBruycker, Hayne, Phillips, Roth, Spring and Westlake voting no.

DISPOSITION OF HB 139

Motion: Rep. O'Connell moved HB 139 DO NOT PASS.

Discussion: CHAIRMAN BROWN reminded the committee that yesterday they had agreed to amend the bill to strike reference to Japan and Taiwan and to insert "foreign Countries." Lois Menzies reported to the Committee information concerning HB 139 (Exhibit 8).

REP. COCCHIARELLA said she opposed the motion as she does not feel that state workers should have to pay out of their own pockets for the expenses. REP. DEBRUYCKER said that he agreed with Rep. O'Connell. REP. ROTH said that the people are going over to Taiwan and Japan for a specific purpose of marketing Montana products. This travel more than pays for itself in returns that we get back to the state, it isn't a trip for pleasure. REP. DEBRUYCKER asked Rep. Roth if he had any specific figures on the amount of return to the state. REP. ROTH said that beef, lumber and grain sales have been made that we would not have had without the trade

commission overseas. REP. PHILLIPS said he was concerned about who would travel overseas. He said he didn't mind paying for legitimate travel.

Amendments and Votes:

REP. PHILLIPS moved to amend the bill by striking "miscellaneous expenses" on page 3, line 10. The motion CARRIED 17 - 1, with Rep. Whalen voting no.

REP. SQUIRES made a substitute motion to put Taiwan and Japan back in the bill. REP. ROTH said he opposed the motion. The motion FAILED, 4 - 14, with Reps. Squires, Russell, Davis and Westlake voting yes. Rep. Roth made a motion to reverse the vote. (Do not pass, 14 - 4.) The motion carried unanimously.

REP. CAMPBELL moved to amend the bill by changing \$7 to \$20 on page 3, line 22. REP. COCCHIARELLA said she thought that \$12 would be a more reasonable figure, and she made a substitute motion to amend the bill by changing \$7 to \$12 on page 3, line 22. REP. PHILLIPS, said he thought that the issue should be discussed separately in a different bill. REP. CAMPBELL said he would settle for the \$12 and withdrew his motion. The motion CARRIED with Reps. DeBruycker, Nelson, Campbell and Phillips voting no.

Recommendation and Vote:

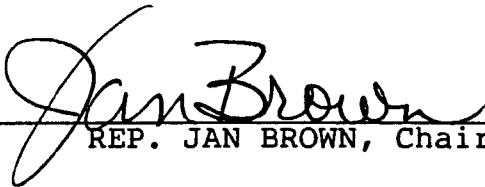
Discussion on the original DO NOT PASS as amended motion followed. REP. ROTH stated that trips to foreign countries still have to fall within the departments' budgets. He said the bill would just allow people that go on an authorized trip to be paid a reasonable amount. REP. WHALEN told the Committee that audits are done of the departments so any unnecessary junkets would be noted. REP. MOORE said she opposed the motion. REP. DAVIS said he couldn't see how the Committee could come up with funding for foreign travel when we cannot come up with funding for the schools.

A vote was taken on Rep. O'Connell's motion that HB 139 DO NOT PASS. The motion FAILED 5 - 13 with Reps. Brown, Cocchiarella, Gervais, Moore, Whalen, Campbell, Compton, Hayne, Nelson, Phillips, Roth and Spring voting no. Rep. Roth moved to reverse the vote (DO PASS AS AMENDED, 13 - 5); the motion CARRIED unanimously.

Chairman Brown noted that a revised fiscal note will be requested for the bill.

ADJOURNMENT

Adjournment At: 11:05



REP. JAN BROWN, Chairman

JB/jb

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DAILY ROLL CALL

STATE ADMINISTRATION COMMITTEE

51th LEGISLATIVE SESSION -- 1989

Date January 25, 1989

NAME	PRESENT	ABSENT	EXCUSED
Rep. Jan Brown, Chairman	✓		
Rep. Helen O'Connell, Vice Ch.	✓		
Rep. Vicki Cocchiarella	✓		
Rep. Ervin Davis	✓		
Rep. Floyd "Bob" Gervais	✓		
Rep. Janet Moore	✓		
Rep. Angela Russell	✓		
Rep. Carolyn Squires	✓		
Rep. Vernon Westlake	✓		
Rep. Timothy Whalen	✓		
Rep. Bud Campbell	✓		
Rep. Duane Compton	✓		
Rep. Roger DeBruycker	✓		
Rep. Harriet Hayne	✓		
Rep. Richard Nelson	✓		
Rep. John Phillips	✓		
Rep. Rande Roth	✓		
Rep. Wilbur Spring, Jr.	✓		

STANDING COMMITTEE REPORT

January 25, 1989

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Mr. Speaker: We, the committee on State Administration report that House Bill 219 (first reading copy -- white) do pass.

Signed: _____

Jan Brown
Jan Brown, Chairman

STANDING COMMITTEE REPORT

January 25, 1989

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Mr. Speaker: We, the committee on State Administration report that House Bill 128 (first reading copy -- white) do pass as amended .

Signed: Jan Brown
Jan Brown, Chairman

And, that such amendments read:

1. Page 5.

Following: line 7

Insert: "(8) A fine imposed under this section must be deposited in the board's earmarked revenue account for the use of the board."

Renumber: subsequent subsection

STANDING COMMITTEE REPORT

January 25, 1989

Page 1 of 2

Mr. Speaker: We, the committee on State Administration report that House Bill 139 (first reading copy -- white) do pass as amended.

Signed: Jan Brown
Jan Brown, Chairman

And, that such amendments read:

1. Title, line 5.

Following: "AN ACT"

Insert: "GENERALLY REVISING PROVISIONS REGARDING TRAVEL EXPENSES FOR PERSONS IN STATE SERVICE,"

2. Title, line 6.

Following: "MEALS"

Strike: ", "

Insert: "AND"

Following: "LODGING"

Strike: ", " through "EXPENSES"

3. Title, line 7.

Strike: "JAPAN AND TAIWAN"

Insert: "A FOREIGN COUNTRY"

4. Title, line 9.

Following: "AREAS;"

Insert: "INCREASING THE REIMBURSEMENT RATE FOR LODGING AT CERTAIN FACILITIES;"

5. Page 3, line 5.

Strike: "Japan and Taiwan"

Insert: "a foreign country"

6. Page 3, line 9.

Strike: "shall"

Insert: "must"

7. Page 3, line 10.

Following: "meals"

Strike: " / "

Insert: "and"

Following: "lodging"

Strike: " / " through "expenses"

8. Page 3, line 16.

Following: "meals"

Strike: " / "

Insert: "and"

9. Page 7, lines 16 and 17.

Following: "lodging" on line 16

Strike: " / " through "expenses" on line 17

10. Page 3, line 22.

Strike: "\$7"

Insert: "\$12"

108 5

House Bill 235 follows three unsuccessful attempts to give members of the PERD the same rights that the legislature passed in 1981 for members of the Teachers Retirement System. In 1985 a bill which would have removed the penalty for retirement after 25 years of service was killed because of the 1/2% contribution increase for both the employee and employer. In the special session of 1986 a bill to allow retirement without penalty with 25 years of service for a period of six months was killed because the Governor was mad over the unions not opening their contracts to take a wage freeze. In 1987 the bill passed easily but was vetoed by the Governor.

Normal retirement with PERD is age 60 or 30 years of service. Early retirement is allowed with 25 years of service or age 50 and 5 years of service. A person with 25 years of service is reduced (penalized) 6% per year for each year less than 30 years of service.

Looking back at the bill in the last session, the major points expressed against the bill were:

1. 26,000 PERD members were going to pay 1% of salary for 300 to 500 members getting a better benefit.
2. A person who started work age 35 or above could not get a benefit.
3. Because the bill only removed the penalty and did not result in half pay, a person could not afford to retire.
4. It discriminated against women because they either started in the job market late or took time off to raise a family.
5. The bill would be challenged in court because you can't make a person pay for a benefit that only a small percentage of those who pay can receive.

These points created enough question that MPEA has spent the past two years looking at what other states have done and working with the PERD board to come up with legislation that all can agree to. The result is HB 234 and 235.

The major points for the bill were:

1. The legislature passed a bill in 1981 which removed the penalty for retirement with 25 years of service for Teachers and the Governor signed it.
2. Early retirement has been used successfully in the private sector both to the advantage of the employees but more to the advantage of the employer by reducing the work force and hiring new employees at a salary level below that of the person who retired.

House Bill 234 and HB 235 were drafted after two years of study and meetings with the PERD Board. These bills not only do away with the negatives of the bill from 1987 but exceed the positives and do what Governor Stephens wants by allowing a substantial number of employees to retire with the resultant savings to the state and local governments.

House Bill 235 is patterned after legislation which passed in New Mexico last year.

Neither of these bills change the basic qualifications for retirement. A member would still have to have 30 years of service or be age 60 for a normal retirement or have 25 years of service or be age 50 with five years of service for "early retirement".

House Bill 234 should be a very important part of Governor Stephens program as it would provide the incentive for a large number of people to retire either leaving those jobs vacant or allowing government to hire people at lower salary levels.

This bill changes the formula for calculating benefits under the PERD System. The current law provides a formula of years over 60 or 30/60 = half pay. This bill would change that to years over 56 or 28/56 = half pay.

As you know, employees have been caught in a "wage freeze" which means that their salary curve is flat. In normal times an employees salary usually increases each year so when three years are averaged the result is less than the salary at time of retirement but higher than the salary three years before retirement. With the "wage freeze" the average salary for calculating a retirement benefit hasn't changed the last three years. This means that this group of people have been hurt in a way they can't recover from unless they keep working until we have salary increases again.

Our one method to change that is to change the formula for calculating their retirement benefits. House Bill 234 does that. By changing the formula from 1/60 to 1/56 their benefit will be increased by approximately 9%. Sure there's a windfall for employees who retire right now without having to pay the increased contribution but that has occurred every time the benefit structure has been changed since 1946. It also is a fair thing to do for these members because other wise they will be penalized by the "wage freeze".

The PERD actuary has calculated the cost to the system for this change to be approximately .99% of salary. This bill will meet that requirement by raising contributions each year for the next five years as follows:

<u>YEAR</u>	<u>EMPLOYEE CONTRIBUTION</u>	<u>EMPLOYER CONTRIBUTION</u>
1989 (Current)	6.0%	6.417%
July 1, 1989	6.15%	6.417%
July 1, 1990	6.30%	6.417%
July 1, 1991	6.417%	6.417%
July 1, 1992	6.55%	6.55%
July 1, 1993	6.70%	6.70%

This bill would not cost the employer any money until July 1, 1992 and then only .283% while the employees would be increasing their rate by .7%. Many legislators last session asked why the employee and employers didn't pay the same rate, this bill would accomplish that.

The phase in funding has been used by both the PERD and the TRD in the past and is approved by the actuary as being actuarially sound.

This bill is very important to meet the goal of the Governor as the pool of current employees who could immediately retire with this bill would be approximately 2500 as compared to HB 235 which would only really affect some 330.

This bill would also be effective on passage and approval

House Bill 235 allows a member of PERD to purchase one year of additional service for each five years of creditable service to a maximum of five years of additional service.

The member must pay the current contribution rate for both the employee and the employer based on the employees salary at the time of purchase. (Current rate - 6% for the employee and 6.417% for the employer) For the employee who wishes to buy time right now and retire, this bill would require a lump sum payment based on the employee's current salary. For an employee who is not ready to retire, the employee can make application and make installment payments to purchase the credit. Installment payments would, of course, include interest. Installment payments would have to be completed by date of retirement.

This bill only allows members employed before July 1, 1989 to purchase any additional credit and further provides that a member can buy military, out of state and additional service under this bill until October 1, 1989 but after that date all three types can continue to be purchased but the total of all three cannot exceed five years.

One of the important offshoots of this bill is that a women who either entere the job market late or takes time off to start and raise a family could replace up to five of those lost years.

This is a simple example of how the bill works:

Current Mem: 25 years of service - \$ 10,000 average salary (Also current salary for this illustration)

Current Law:

25/60 = 41.666% of \$ 10,000 = \$ 4166.66 Annual Benefit. If this member is under age sixty a 1/2% per month or 6% per year reduction for the number of months or years under 30 the member has is applied. For this example that would result in the following reduction.

\$ 4166.66 less 30% (6% x 5) = \$ 4166.66 - \$ 1250 = \$ 2916.66 Annual Benefit

WITH HB 235

Member purchases five years: 12.417% x \$ 10,000 = \$ 1241.70 x 5 = \$ 6,208.50 Cost

Benefit Calculation

25 years + 5 years purchased = 30/60 = 50% x \$ 10,000 = \$ 5,000.00 Annual Benefit

This cost to benefit ratio would run consistant in calculating benefits with other salaries or number of years purchased.

Example: A member with a \$ 30,000 a year salary would cost three time as much and the benefit would be three times greater.

REMEMBER - the advantage of this bill over the bill two years ago is that only the person that uses it pays for it and it allows a person who qualifies for an early retirement benefit to retire with half pay.

The bill would be effective on passage and approval.

RETIREMENT LEGISLATION

EXHIBIT 1
DATE 1-25-89
HB 235 & 234

Some questions that are being asked:

4 of 5

1. Why didn't we put SB 149 from last session back in this time?
 1. The bill to buy up to five years has two major advantages.
 - a. A person with 25 years can buy 5 years and not only get rid of the penalty but also retire with 30 years or 50% of average salary. SB 149 would have deleted the penalty but the benefit would still have been 41.66% of salary.
 - b. Only a person who uses the 5 year bill will pay for it. SB 149 would have required all members of PERD to pay an additional 1% of salary for a few to retire without penalty. Because of not using employee contribution to remove the penalty, it allows for a bill to improve the benefits for everyone thus we have submitted the second bill which changes the calculating formula from 1/60 to 1/56 in the second bill. This will improve the benefit for every member of the system whether they have 5 years of service or 35 years of service and all in between.
2. Do I have to pay a lump sum?
 1. If you are ready to retire when the bill passes you would have to pay a lump sum. If you want to buy up to five years but are not ready to retire yet you can make arrangement to pay in installments. If you have completed five years now you can buy one year based on current salary and pay either in a lump sum or in installments. If you have eighteen years now you can buy 3 years now based on current salary and pay lump sum or installments.
3. If I have three years of military service can I still buy five years?
 2. All military and out of state service which is applied for and paid for prior to October 1, 1989 counts fully toward your retirement plus you may buy up to five additional years of service.

After October 1, 1989 you may still buy military service, out of state service or up to five additional years of service but the total cannot exceed five years.
4. Why are the total number of years limited after October 1, 1989?
 3. The cost of buying additional service would have been as much as 6% higher if the limit had not been applied.
5. When are the bills effective?
 1. Both bills are effective on the date the Governor signs them. The .15% increase in employee contributions in the formula change bill (6.0% to 6.15%) will not be effective until July 1, 1989.
6. What else?
 1. MPEA worked with the PERD Board for the past eighteen months to come up with legislation that would not result in the confrontation of two years ago. At this point these bills do that and we are working together for passage.

EMPLOYER COST - TAX LOSS vs SAVINGS

When fully implemented HB 234 will increase the employer contribution for state and local government by .283%. This has been calculated to be a dollar figure of 1.2 million. That means a general fund cost of less than \$ 300,000 for state government.

3 of 5

On the reverse side the question becomes one of how much money can we save by this bill and HB 235.

This year, alone, some 3000 employees could retire because of the passage of these two bills.

HB 234 - 2500 employees currently could retire with the average salary \$ 23,020
HB 235 - 329 employees currently could retire with the average salary \$ 27,439

The average salary of a member of PERD with 0 - 4 years of service is \$ 14,570.

This means if we could save up to \$ 10,000 if we replace those who retire and between \$ 20,000 and \$ 30,000 if we don't replace them. That is for each one who retires. Over the next five years many more employees will qualify and leave. Those who withdraw will have to pay the tax immediately when they draw the money.

WINDFALL

Again, the members getting the windfall are those who have suffered with a "wage freeze" which will affect their retirement benefits for the rest of their lives.

COMPARISON OF FUNDING LEVELS AND YEARS TO FULL FUNDING EXHIBIT 2

DATE 1-25-89

HB 234

<u>SYSTEM</u>	<u>EMPLOYEE CONTRIBUTION</u>	<u>EMPLOYER CONTRIBUTION</u>	<u>FULL FUNDING</u>
PERD	6%	6.417%	24.96 Yrs.
TRD	7.044%	7.428%	
Police Officers	7.50%	13.02%(15.06%)	29.51 Yrs.
Game Wardens	7.9%	7.15%(11.19%)	11.27 Yrs.
Sheriff's	7%	7.67%	Full
Judges	7%	6% (25%?)	Over 100 Yrs
Highway Patrol	7.59%	26.75%	36.65 Yrs
Firefighters	6%	13.02% (22.98)	34.25 Yrs

Handwritten notes:
1-25-89
HB 234

TESTIMONY OF DENNIS HEMMER

HOUSE BILL 234

My clients urge your support of House Bill 234. The Bill has a number of positive benefits.

1. The increased benefits will help to offset the effects of the pay freeze. The pay freeze will permanently effect many of those employees retiring in the next few years. The final compensation used in computing retirement are the three highest years of pay, typically the last three. Those employees who must include one or more years during the freeze in the final compensation will feel the effect of the freeze for the rest of their lives.
2. The bill may help save money in the long run. It will encourage those employees with the highest steps and most longevity increments to retire, being replaced with newer employees.
3. It will be an added incentive to the employee benefit package which will help to attract good employees. A task which is becoming more difficult.
4. The Bill is a positive sign to employees which should help morale.

While there is a cost to the Bill, the benefit will be to all employees regardless of their age when they began employment with the State.

I urge your support for House Bill 234.

I ask you to support House Bills 134 and 235. I favor both bills because I feel they would help segments of Montana in population, help the economy of the state, and lower the expenses of the state agencies. You can't meet more mileage than that from 2 bills.

The 1st segment would be the older population - many of us are beginning to have health problems and would take advantage of the option of retiring before 30 years of service. I see myself as an example - I'm almost at the top of the retirement grade, steps pay scale it because of health problems. I see me longer to turn out the quality of service I invest in as the state is losing dollars there. People like me could retire - would help the dual segment - younger people who want to stay in Montana but have no opportunities.

This would help the economy by cutting down the unemployment.



It would also help state agencies budget by eliminating several of the highest paid years of employment in our employment career.

Carol Barclay
& George Barclay

EXHIBIT 4
DATE 1-25-89
HB 234 + HB 235

TESTIMONY OPPOSING HB 234.

By: David Ashley, Acting Director, Department of Administration

I am here to oppose HB 234. Although the bill encourages increased savings by employees, a laudable goal, it includes provisions that will result in increased expense to Montana's public employers.

1. HB 234 increases both the employee and employer contribution to the retirement system. This costs money. When fully implemented in Fiscal Year 1994, the employer contribution rate will be 6.7 percent of salary rather than the current 6.417 percent. System wide, this amounts to an additional employer cost of \$1.2 million dollars. The state General Fund impact is estimated to be \$440,000.
2. In addition, state income tax revenues will decrease under this bill. Salary, which is currently earned and taxed, will be tax deferred under this bill. Income taxes will not be assessed until employees retire. This will result in reduced income tax revenue of approximately \$110,000 next biennium. In future bienniums, this loss will be greater. These revenue losses may be offset to the extent that the bill encourages employees to retire who wouldn't have otherwise retired. Retirees' cash out for sick and vacation leave is taxable income.
3. HB 234 results in a slightly longer period necessary to fund the system's unfunded liability. The reason for this is that the costs of the bill are immediate, but the revenue to pay those costs is not fully phased in until 1994.

In summary, HB 234 is not a part of the administration's compensation package. It will eat into the already modest wage proposal that employees will receive next biennium. I encourage you to vote against the bill.

EXHIBIT 6
DATE 1-25-89
HB 235

TESTIMONY OF DENNIS HEMMER

HOUSE BILL 235

On behalf of my clients I urge your support of House Bill 235.

Its often said that "There's no free lunch". However, this bill is free. It represents an opportunity to give a benefit to state employees at no cost to the state. All increases in benefits are paid by the employee.

The proposal is actuarially sound and therefore will have no detrimental effects to the retirement fund.

This proposal is very similar to early retirement incentives offered by private industry with the exception that all the costs under this bill are borne by the employee.

The bill will save the state money because it will encourage those employees with the highest steps and most longevity increments to retire. They will in most cases be replaced with newer employees with fewer steps and longevity increments.

You have an opportunity to give the State's employees an added benefit at no cost. I urge you to boost employee morale by approving House Bill 235.

WITNESS STATEMENT

NAME

Tom Schauder

BILL NO.

HB 234 V 23

ADDRESS

Box 716

Alena

WHOM DO YOU REPRESENT?

WIPEH

SUPPORT

OPPOSE

AMEND

COMMENTS:

Comments passed out -

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

EXHIBIT 7

DATE 1-25-89

HB 128

Amendments to House Bill No. 128
First Reading Copy

For the House Committee on State Administration

Prepared by Lois Menzies
January 24, 1989

✓ 1. Page 5.

Following: line 7

Insert: "(8) A fine imposed under this section must be deposited
in the board's earmarked revenue account for the use of the
board."

Renumber: subsequent subsection

1



EXHIBIT 8

DATE 2-09-89

HB 139 HOUSE-MEMBER
RALPH S. EUDA
VICE CHAIRMAN
REX MANUEL
ROBERT L. MAP
JOHN VINCENT

SENATE MEMBERS
J.D. LYNCH
CHAIRMAN
PAUL F. BOYLAN
JACK E. GALT

SUPERVISOR
AMY CLARK

Montana Legislative Council

Accounting Services

State Capitol
Helena, Montana 59620
(406) 444-3064

EXECUTIVE DIRECTOR
ROBERT B. PER

January 5, 1989

ROUND TRIPS AVAILABLE/TAKEN DURING THE 1987 SESSION

House - 97 members * 4 trips = 388 total
 actual trips taken = 334
 Approximately 86% of trips available were taken

Senate - 48 members * 4 trips = 192 total
 actual trips taken = 173
 Approximately 90% of trips available were taken

Overall 580 trips were available to 145 members of those 507 were taken, approximately 87%

Tom,
 Here is the info you requested, I couldn't
 find you in person, if you have questions
 I am at 3689
 Nancy

VISITORS' REGISTER

STATE ADMINISTRATION COMMITTEE

BILL NO. HB 234

DATE January 25, 1989

SPONSOR REP. SPAETH

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
DAVE MILOT	5800 Ray Lane Florence Mt.	X	
Dennis Hemmer	613 Highland Hwy	X	
Mervin Gunderson	407 Helen Drive, Belgrade	X	
Lorraine Decker	767 Parker Dr. Belgrade	X	
Lathy Gunderson	407 Helen Dr Belgrade	X	
Carol Barclay	601 So Black Bog	X	
George Barclay	601 So. Black Bog	X	
Victi Cocchiarella	Victi Cocchiarella	X	
Nadrian Jensen	AFSCME	X	
Phil Campbell	MEA	X	
Shirley Clark	6305 Birdseye, Helena	X	
Leon Eckmeyer	619 Highland "	X	
Jim Moran	MFT	X	
Spelly Laine	City of Helena		X
Tom Schneider	MPFA	X	
Wendy Ashley	Dept of Admin - 625 2nd Helena		X

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

STATE ADMINISTRATION COMMITTEE

BILL NO. HB 235

DATE January 25, 1989

SPONSOR REP. SPAETH

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
Dave Milot	5800 Ray Lane Florence Mt	X	
Dennis Hemmer	1613 Highland Hwy	X	
Mervin Gunderson	407 Helen Drive, Belgrade	X	
Larry Anderson	4017 Helen Dr, Belgrade	X	
Lehman Decker	767 Parker Drive Belgrade	X	
Carol Barclay	601 So. Black Bogman	X	
Henry M. Barclay	601 So. Black Bog	X	
Yvonne Cookinella	535 Livingston	X	
Tom Nachtshen	PER P	X	
Nathan Jensen	AFSCME	X	
Phil Campbell	MEA	X	
Shirley Clark	4305 Birdseye Helen	X	
Jean Guckmeyer	619 Highland	X	
John Dwyer	MFT	X	
Thomas Schneider	MPEA	X	
Rich Brown	M.U.A.D.		X

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

PHILLIPS AMENDMENT
(GENERAL FUND)
DEPOSIT

ROLL CALL VOTE

STATE ADMINISTRATION

COMMITTEE

DATE 1-25-89

BILL NO. 128

NUMBER 1

NAME	AYE	NAY
Jan Brown		X
Bud Campbell	X	
Vicki Cocchiarella		X
Duane Compton	X	
Ervin Davis		X
Roger DeBruycker	X	
Floyd "Bob" Gervais		X
Harriet Hayne	X	
Janet Moore		X
Richard Nelson		X
Helen O'Connell		X
John Phillips	X	
Rande Roth	X	
Angela Russell		X
Wilbur Spring, Jr.	X	
Carolyn Squires		X
Vernon Westlake		X
Timothy Whalen	X	

TALLY

8

10

Judy Burgoyne
Secretary

Jan Brown
Chairman

MOTION: To amend HB128 for funds to be deposited
in the General Fund.

ROLL CALL VOTE

STATE ADMINISTRATION

COMMITTEE

DATE January 25, 1989 BILL NO. 128

NUMBER 2

NAME	AYE	NAY
Jan Brown	X	
Bud Campbell		X
Vicki Cocchiarella	X	
Duane Compton		X
Ervin Davis	X	
Roger DeBruycker		X
Floyd "Bob" Gervais	X	
Harriet Hayne		X
Janet Moore	X	
Richard Nelson	X	
Helen O'Connell	X	
John Phillips		X
Rande Roth		X
Angela Russell	X	
Wilbur Spring, Jr.		X
Carolyn Squires	X	
Vernon Westlake		X
Timothy Whalen	X	

TALLY

10 8

Judy Burzgraff
Secretary

Jan Brown
Chairman

MOTION: No Pass As Amended.

ROLL CALL VOTE

STATE ADMINISTRATION

COMMITTEE

DATE 1-25-89

BILL NO. 139 as amended

NUMBER 1

NAME	AYE	NAY
Jan Brown		X
Helen O'Connell	X	X
Vicki Cocchiarella		X
Ervin Davis	X	
Floyd "Bob" Gervais		X
Janet Moore		X
Angela Russell		X
Carolyn Squires	X	
Vernon Westlake	X	
Timothy Whalen		X
Bud Campbell		X
Duane Compton		X
Roger DeBruycker	X	
Harriet Hayne		X
Richard Nelson		X
John Phillips		X
Rande Roth		X
Wilbur Spring, Jr.		X

TALLY

5

13

Judy Burggraf
Secretary

Jan Brown
Chairman

Do not Pass as amended.

MOTION: Reverse the vote motion made. Passed.